

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3592-01
Bill No.: SB 705
Subject: Taxation and Revenue - Property; Counties
Type: Original
Date: February 3, 2020

Bill Summary: This proposal places a limit on the growth in assessments of residential real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund (0621) *	\$0	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)

* generally represents potential limitation of increased revenue collections

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume this bill proposes that no real residential property shall be assessed by more than the percentage increase of the Consumer Price Index or 5% whichever is greater. Senate Bill 705 has an unknown fiscal impact on the State Tax Commission, however the limitation on assessment growth may negatively impact revenues for school districts, counties, cities, fire districts and other local taxing jurisdictions supported by property tax revenues. Additionally, restrictions on assessment growth may create disparities and inequities over time among residential properties and categories of homeowners, shifting a greater share of the tax burden from one class of homeowner to another. A newer home's true market value used for assessment may increase far more than an older home. An assessment limit would impact the assessment growth and over time potentially create a large disparity.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the proposal will have no direct fiscal impact on their organization, general and total state revenues, and will not impact the calculation pursuant to Article X, Section 18(e).

Subsection 137.115.1 would limit increases to the assessed value of real residential property to either the rate of inflation or 5%, whichever is greater; unless there has been new construction at such property.

B&P notes that while this proposal will not have a direct impact to the Blind Pension Trust Fund or local revenues, this may have a negative indirect impact over time.

Officials from the **Department of Revenue**, the **Department of Elementary and Secondary Education**, the **Office of the State Auditor** and the **Department of Social Services** each assume the proposal will have no fiscal impact on their respective organization.

Officials from the **Ste Genevieve County Assessor's Office** assume the potential loss in revenue for Ste Genevieve County would be hard to calculate. The loss would be based on the difference between what the overall market shows vs the CPI or 5% increase as proposed by this bill. Programming and implementation of this proposed language could exceed \$5,000.

The proposed language in this bill limits the Assessor to complete assessments based on true market value of their county, and over the course of reassessment cycles, could create inequitable

ASSUMPTION (continued)

assessments between property owners. The State Tax Commission requires the Assessors to be between 90% to 110% of market value within their county. In the event the County falls out of tolerance, funding to the Assessment Fund can be withheld.

Officials from **Sullivan County** assume this proposal will result in a revenue loss of \$19,132 per year as increases in market value are often more than 5%.

Officials from **Warren County Assessor's Office** assume the revenue lost by each taxing jurisdiction (school, fire, ambulance, library, hospital, city, county, etc.) would be dependent on local real estate markets each reassessment cycle. Computer programming changes and upgrades per county are estimated between \$10,000 and \$30,000 or more.

Officials from the **City of Springfield** assume there is no immediate fiscal impact to the City of Springfield, but will likely have a long-term negative fiscal impact. Although the assessed property values in the City of Springfield generally increase by less than 5% per year on average, there are certain properties in certain areas of the City that may increase in value by more than 5% even without new construction or improvements. A cap of 5% would mean the assessed valuation of these properties could lag behind the "real" valuation of those properties for years or decades if they continue to increase in value year after year, greatly affecting the City's tax base and possibly leading to areas with higher property values being under taxed in relation to areas with lower property values.

Officials from the **City of Kansas City** assume this proposal would have a negative fiscal impact on Kansas City in an indeterminate amount. Currently the growth factor used to calculate the tax levy is not allowed to exceed either CPI (or the actual growth in assessed values whichever is lower). However individual parcels may. If this legislation passed, the calculation to determine the levy rate would have to meet the CPI test at both the individual parcel level to determine individual parcel assessed value and then again at the aggregate assessed valuation which is used to calculate the levy. The result would lower revenues (particularly in periods of increased property values).

Officials from the **City of St. Louis** assume taxing jurisdictions are already limited to tax increases of an inflationary amount of the CPI or 5%, whichever is less. However, limiting or capping assessments does not conform to Section X, Article 3 of the MO Constitution as it would cause for non-uniform assessments in the same subclass of property. Those properties that are appreciating at a faster rate would be taxed at a lesser percentage of value than those properties that are stagnant or decreasing in value.

ASSUMPTION (continued)

Officials from **Perry County Assessor's Office** assume the potential loss in revenue would be based on the difference between the overall market increase for each jurisdiction and the limited increase, 5% or CPI, allowed by this legislation. Costs for programming and implementation estimated to be over \$5000.

Oversight assumes this proposal limits increases in the assessed values of individual residential property to the increase in the percentage change in CPI (estimated at 1.9% for the 2018 year end) or 5% which ever is greater. Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus five percent growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes as a result of this proposal.

Table I: Assessed Values

	Prior Year Market Value	Prior Year Assessed Value (19%)	Current Year Market Value (Assumed)*	Assessed Value Current (19%)	Assessed Value Proposed**
Property 1	\$100,000	\$19,000	\$115,000	\$21,850	\$19,950
Property 2	\$100,000	\$19,000	\$100,000	\$19,000	\$19,000
Total	\$200,000	\$38,000	\$215,000	\$40,850	\$38,950

*For purposes of this example, Oversight assumed a 15% increase in the market value of property 1 and no change in the market value of property 2.

**Oversight assumed the assessed value would be either the market value times 19% or the prior year assessed value plus a 5% increase whichever is lower.

ASSUMPTION (continued)

Oversight notes property tax revenues are generally designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Below is the basic formula for the tax rate-setting calculation:

Growth Factor Calculation

Current Year Adjusted Total Current Assessed Value	\$40,850
Less Previous Year Adjusted Total Assessed Value	<u>- \$38,000</u>
	\$2,850
Divided by Previous Year Adjusted Total Assessed Value	<u>/ \$38,000</u>
	0.75
Times 100	<u>* 100</u>
Actual Growth Factor	7.5%

Tax Rate Calculation

Revenues Authorized Previous Year	\$1,900
Times the Growth Factor*	<u>* 1.9%</u>
Authorized Revenue Growth	\$36

Previous Year Authorized Revenues	\$1,900
Plus Authorized Revenue Growth	<u>+ \$36</u>
Current Year Authorized Revenues	\$1,936

Total Current Assessed Value	\$40,850
Less New Construction	<u>- \$0</u>
Adjusted Total Current Assessed Value	\$40,850

Current Year Authorized Revenues	\$1,936
Divided by Adjusted Total Current Assessed Value	<u>/ \$40,850</u>
	0.04739
	<u>* 100</u>

Maximum Authorized Levy \$4.739

Using the basic tax rate formula above and the [Property Tax Rate Calculator](#) (Single Rate Method) provided on the Missouri State Auditor's website, **Oversight** estimated the potential changes in the tax rate from this proposal in the table below using the two-property example.

ASSUMPTION (continued)

Table II: Tax Rates

	Total Assessed Values	Growth Factor*	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate Ceiling (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	\$38,000	N/A	\$1,900.00	5.0000
Current Year Current Law	\$40,850	1.9%	\$1,936.00	4.7393
Current Year Proposed Law	\$38,950	1.9%	\$1,936.00	4.9705

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation as calculated above (7.5%), inflation based on CPI (1.9%) or 5% whichever is lower. In this example actual growth exceeds inflation, therefore the growth factor used in the tax levy calculation is capped at inflation (1.9%).

Currently, growth in assessed values allows the tax rate to fall over time. In this example under the proposed legislation, the tax rate would fall at slower rate than under the current law.

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law) rather it would result in a loss of revenue.

Based on information provided by the Office of the State Auditor, **Oversight** notes there are over 2,500 tax entities with 4,000 different tax rates. Of those entities, 3,155 tax rate ceilings are below the entities' statutory or voter approved maximum tax rate and 929 tax rate ceilings are at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Because the tax levy would fall at a slower rate in this example as noted in Table II, the distribution of tax on individual property owners would change as noted below in Table III.

ASSUMPTION (continued)

Table III: Distribution of Individual Property Tax

	Prior Year Tax Burden	Assessed Value Current (Table I)	Tax Burden Current (4.7393)	Assessed Value Proposed (Table I)	Tax Burden Proposed (4.8521)
Property 1	\$950.00	\$21,850	\$1,035.53	\$19,950	\$991.61
Property 2	\$950.00	\$19,000	\$900.47	\$19,000	\$944.39
Total	\$1,900.00	\$40,850	\$1,936.00	\$38,950	\$1,936.00

Based on information from the [Federal Housing Finance Agency](#) website, **Oversight** notes there were 710 census tracts in Missouri with an annual change in the House Price Index (HPI) that exceeded 5% combined for the 2017 and 2018 period (based on a two year reassessment cycle). Because this proposal limits the assessed value of individual residential properties to a 5% increase from the previous assessment, this will result in a decrease to total assessed values (relative to current law) as a result of any property that appreciates more than 5% over the two year reassessment cycle.

Oversight notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Because this proposal limits the assessed value portion of this equation, the Blind Pension Fund will experience a decrease in revenue relative to what it would have received under current law. Below is an example of how this proposal would impact the Blind Pension Fund using the two property example.

Table IV: Blind Pension Trust Fund

	Total Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	\$38,000	\$11.40
Current Year Current Law	\$40,850	\$12.26
Current Year Proposed Law	\$38,950	\$11.69

ASSUMPTION (continued)

Per the Auditor's report, Jackson County had an 18.64% increase in adjusted total assessed value (less new construction and improvements) from 2018 to 2019. Using information from the State Tax Commission's Annual Report, **Oversight** estimated total residential assessed value was \$6,005,888,167 in 2018. Applying the growth rate of 18.64%, Oversight estimated residential assessed values would potentially increase to \$7,111,572,179 ($\$6,005,888,167 * 1.1864$) in 2019.

Under this proposal the maximum increase would be capped at 5% which is estimated at \$6,306,182,575 ($\$6,005,888,167 * 1.05$). **Oversight** assumes the 5% cap would decrease the residential assessed value by \$805,389,603 ($\$7,111,572,179 - \$6,306,182,575$). Correspondingly, the Blind Pension Fund would decrease by \$241,617 relative to what would have been received under current law ($(\$805,389,603/100) * .03$).

Oversight notes OA-B&P indicated they did not anticipate a reduction in funding relative to what is currently collected because the proposal still allows for some growth in assessed values. However, Oversight will show an unknown negative fiscal impact that could exceed \$100,000 to the Blind Pension Fund relative to what it would have received under current law.

Although the effective date of this proposal, if passed, would be FY 2021 (August 2020), this would be midway through the assessment year; therefore, officials from the **State Tax Commission** indicated this proposal would likely take effect the following calendar year, 2021, with impacted revenues occurring in FY 2022 (December 2021).

Oversight notes some counties indicated additional costs for implementation and computer programming. Oversight will show an unknown cost to county assessors to implement this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
BLIND PENSION FUND			
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than 5% - §137.115	<u>\$0</u>	(Unknown, Could exceed <u>\$100,000</u>)	(Unknown, Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	(Unknown, Could exceed <u>\$100,000</u>)	(Unknown, Could exceed <u>\$100,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> - for assessors for implementation and computer programming - §137.115	\$0	(Unknown)	(Unknown)
<u>Loss</u> - loss of property tax on property that appreciates more than 5% - §137.115	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

Oversight assumes there could be a fiscal impact to small businesses if tax rates are adjusted relative to changes in assessed value.

FISCAL DESCRIPTION

This act provides that the assessed valuation for residential real property shall not exceed the previous assessed valuation for such property, exclusive of new construction and improvements, by more than five percent or the percent increase in inflation, whichever is greater.

Additionally, current law requires assessors to conduct a physical inspection of residential real property prior to increasing the assessed valuation of a property by more than fifteen percent since the last assessment. This act requires such a physical inspection prior to increasing the assessed valuation of a property by more than five percent.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
 State Tax Commission
 Department of Social Services
 Office of the State Auditor
 Department of Elementary and Secondary Education
 City of St. Louis

SOURCES OF INFORMATION (continued)

City of Kansas City
City of Springfield
Ste Genevieve County Assessor's Office
Warren County Assessor's Office
Perry County Assessor's Office
Sullivan County



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